



**STATE OF NEW HAMPSHIRE
DEPARTMENT OF TRANSPORTATION
TURNPIKE SYSTEM**



**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Front cover photo: I-95 Hampton Tolls northbound, October 2007. Photo courtesy of Nasser Yari.

New Hampshire Turnpike System
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2007

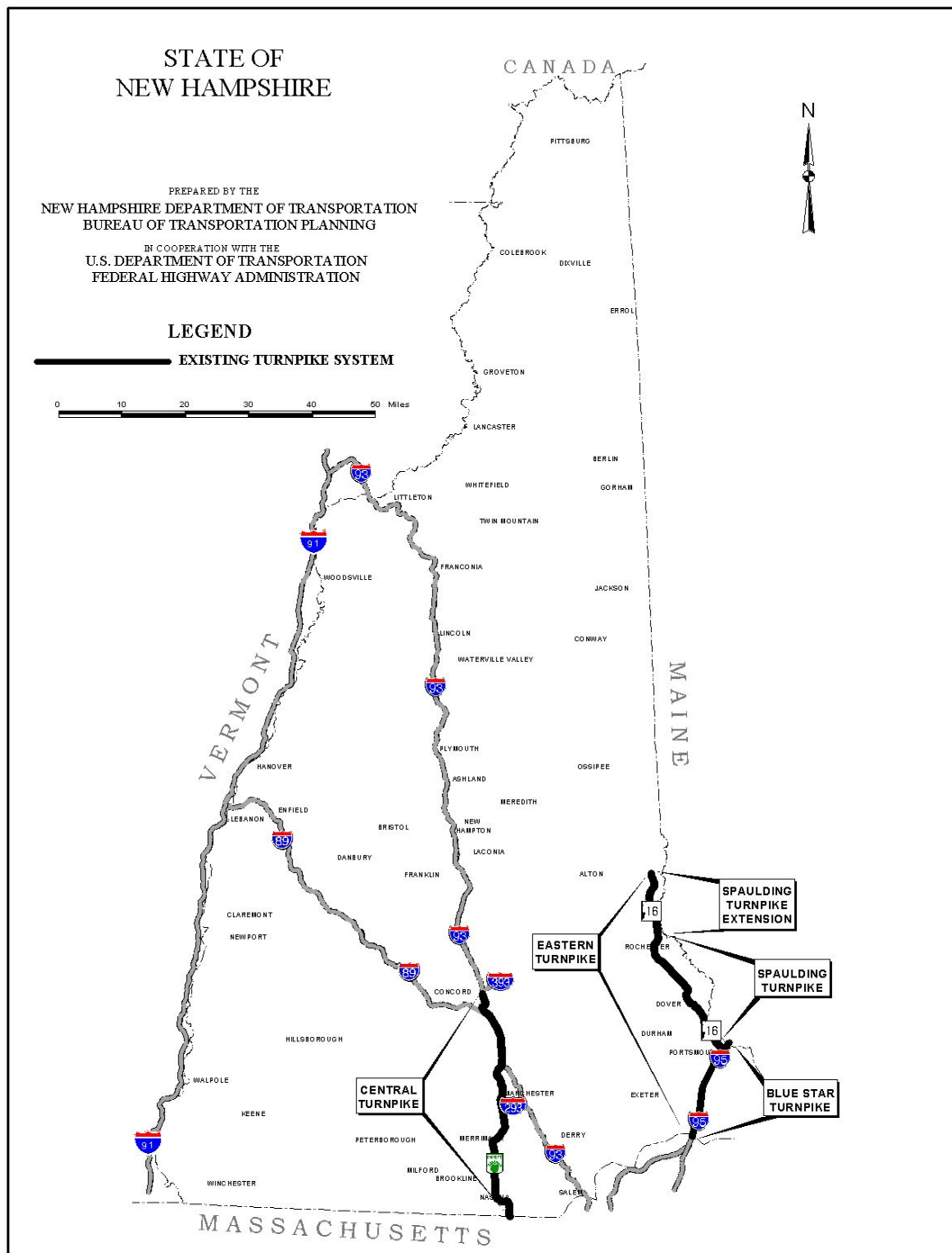
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INTRODUCTORY SECTION

This section includes a transmittal letter addressed to the citizens and the Governor of the State of New Hampshire, an overview of the Turnpike System, and an organizational listing of the principal officials.



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CHARLES P. O'LEARY, JR.
COMMISSIONER

THE STATE OF NEW HAMPSHIRE
DEPARTMENT OF TRANSPORTATION



JEFF BRILLHART, P.E.
ASSISTANT COMMISSIONER

November 30, 2007

To: The Citizens of New Hampshire,
His Excellency the Governor, and the Honorable Council,

We are pleased to submit the Comprehensive Annual Financial Report of the New Hampshire Department of Transportation Turnpike System as of and for the fiscal year ended June 30, 2007. The Department of Transportation, Bureau of Finance and Contracts, prepared this report. Responsibility for both the accuracy of the financial data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Department. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results in operations, and cash flows of the Turnpike System. All disclosures necessary to enable the reader to gain an understanding of the Turnpike's financial activities have been included.

This report is divided into three sections: introductory, financial, and other information. The introductory section includes this transmittal letter and our organizational chart. The financial section contains the independent auditors' report, management's discussion and analysis (MD&A), and financial statements with accompanying notes. The other information section includes other relevant financial and operational information.

GASB Statement 34 requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is intended to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the independent auditors' report.

The Turnpike System is also included within the State's Comprehensive Annual Financial Report. However, the report that follows here presents all activities of the Turnpike as a single enterprise fund and does not include data or information related to any other state agency or fund.

This annual report may also be viewed on the State of New Hampshire - Department of Transportation website located at <http://webster.state.nh.us/dot/media/publications.htm>.

THE TURNPIKE SYSTEM

General Description

The Turnpike System, as shown on the map on the Introductory Section cover page, presently consists of 93 miles of limited access highway, 36 miles of which are part of the U.S. Interstate Highway System. The Turnpike System comprises a total of approximately 631 total lane miles. Since beginning operations in 1950, the Turnpike System has contributed to the development of the New Hampshire economy. It has also been a major factor in the growth of the tourist industry in the State. The Turnpike System consists of three limited access highways: the Blue Star Turnpike (I-95) and the Spaulding Turnpike, which are collectively referred to as the Eastern Turnpike, and the Central Turnpike. The Turnpike System primarily serves the major cities located in the central and eastern sections of southern New Hampshire.

No food, gas or vehicle service facilities are located on the Turnpike System, with the exception of vending machines at the Hooksett and Seabrook rest areas. Motorist services are located near most interchanges on the Turnpike System and are privately operated. State operated liquor stores are located at two rest areas on the Central Turnpike (I-93) and at two sites along the Blue Star Turnpike (I-95). The Bureau of Turnpikes does not receive any revenue from the liquor store operations, which are operated by the State's Liquor Commission, or from the vending machines, which are operated by the State's Department of Administrative Services.

The Eastern Turnpike

Blue Star Turnpike (I-95)

The Blue Star Turnpike segment of the Turnpike System extends from the Massachusetts state line in Seabrook, New Hampshire to the Portsmouth Traffic Circle in Portsmouth, New Hampshire. It is 15.0 miles in length and constitutes a portion of U.S. Interstate Highway 95. The Blue Star Turnpike serves as the major connecting road between the states of Maine and Massachusetts. It also parallels the seacoast and, as such, is the major artery for tourist traffic to the New Hampshire coast from Massachusetts and Maine. The route also connects with several major highways in New Hampshire, including Route 101, Route 4 and the Spaulding Turnpike. Two toll plazas are located in Hampton, one for main line traffic and one for vehicles entering and leaving the Turnpike System.

Hampton also has both a maintenance and a park and ride facility to encourage car-pooling. The Seabrook Welcome Center provides a rest area, vending machines, and parking for automobiles and commercial vehicles. This relatively new facility provides a larger building than the former Seabrook rest area, allowing for increased convenience of the Turnpike System patrons.

Spaulding Turnpike

The Spaulding Turnpike segment of the Turnpike System, including the 11.2-mile Spaulding Turnpike extension, extends from Portsmouth, New Hampshire to Exit 18 in Milton, New Hampshire. It is 33.2 miles in length and is the major north-south artery in the eastern corridor of the State. This segment of the Turnpike System connects the Blue Star Turnpike (I-95) to Route 16 (the major roadway to northern New Hampshire in the eastern portion of the State), and it connects the major cities of eastern New Hampshire (Portsmouth, Dover and Rochester) as well as intersects with several major highways (Routes 4, 16 and 125). It has two toll plazas located at Dover and at Rochester, with a maintenance facility for the Spaulding Turnpike located in Dover. Maintenance on the Spaulding Turnpike extension is provided by the Department of Transportation's Bureau of Highway Maintenance and billed to the Bureau of Turnpikes. In addition, for the convenience of

the Turnpike System patrons, a rest area with rest rooms and picnic facilities is provided at Hilton Park in Dover.

The Central Turnpike (F.E. Everett)

The Central Turnpike, commonly known as the F.E. Everett Turnpike, extends from the Massachusetts state line in Nashua, New Hampshire to Exit 14 in Concord, New Hampshire. Its distance is 44.7 miles in length and constitutes a portion of U.S. Interstate Highways 93 and 293. The Central Turnpike connects three urban centers in New Hampshire (the cities of Concord, Manchester, and Nashua). The route also intersects with the major East-West roads in New Hampshire (Route 101, Route 4 and I-89). Six toll plazas are located on the Central Turnpike: two at Hooksett (main line and ramp), a main line plaza in Bedford, and ramp plazas at Bedford Road, Exit 11 and Merrimack Industrial Interchange, all in Merrimack. There are maintenance facilities at Nashua, Merrimack and Hooksett. Park and ride facilities are provided in Hooksett and Nashua. In addition, two rest areas for information and rest room facilities are provided in Hooksett for the convenience of Turnpike System patrons. The Central Turnpike also has a Welcome Center at Exit 6 in Nashua. The widening of the Central Turnpike in Nashua from the Massachusetts state line to the Exit 8 interchange was completed in 2002. This section of reconstructed highway includes a highway interconnect from the Exit 2 interchange in Nashua to Route 3A in Hudson.

Charles P. O'Leary, Jr.

A handwritten signature in black ink, appearing to read 'C. O'Leary', with a large, stylized loop at the end.

Commissioner

ORGANIZATIONAL LISTING

STATE OF NEW HAMPSHIRE

Governor

John H. Lynch

Executive Council

Raymond S. Burton

John D. Shea

Beverly A. Hollingworth

Raymond J. Wieczorek

Debora B. Pignatelli

State Treasurer

Catherine A. Provencher

Secretary of State

William M. Gardner

Attorney General

Kelly A. Ayotte

NEW HAMPSHIRE DEPARTMENT OF TRANSPORTATION

Commissioner

Charles P. O'Leary, Jr.

Assistant Commissioner

David J. Brillhart, P.E.

Director of Operations

Lyle Knowlton, P.E.

Director of Finance

Thomas Martin, CPA

Turnpike System Administrator

Harvey S. Goodwin, P.E.

Turnpike System Assistant Administrators

Jonathan K. Hanson and John Corcoran, P.E.

Business Administrator

Margaret S. Blacker

Maintenance Superintendent

Dix E. Bailey

Project Manager

Nassar Yari, P.E.

FINANCIAL SECTION

This section includes the independent auditors' report, management's discussion and analysis, the financial statements as of and for the fiscal year ended June 30, 2007 and the accompanying notes to the financial statements.

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INDEPENDENT AUDITORS' REPORT

To the Fiscal Committee of the General Court
State of New Hampshire
Concord, New Hampshire

We have audited the accompanying statement of net assets of the State of New Hampshire's Turnpike System as of June 30, 2007 and the related statement of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Turnpike System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Turnpike System's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Turnpike System as of June 30, 2007, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages 11 through 15 is not a required part of the financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Turnpike System. The introductory and other information sections of this report are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory and other information sections have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.



To the Fiscal Committee of the General Court
State of New Hampshire
Page 2

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2007, on our consideration of the Turnpike System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

November 30, 2007

New Hampshire Turnpike System Management's Discussion and Analysis

(Unaudited)

This discussion and analysis of the Turnpike System's financial performance provides an overview of financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the transmittal letter at the front of the introductory section and the Turnpike System financial statements, which follow in this section.

Financial Highlights

- ❖ Operating revenues for the Turnpike System increased approximately \$5.0 million or 6.1% in fiscal year 2007, primarily due to changes in the discount rates offered under the E-ZPass program versus the previous discounts offered for tokens.
- ❖ Operating expenses for the year decreased approximately \$1.2 million or 2.0%. This decrease in operating expenses is due largely to a drop in expenses relating to the E-ZPass program, as the program expenditures stabilized after the initial implementation period in the prior year.

Using this Annual Report

The Turnpike System is accounted for as an enterprise fund, reporting all of the Turnpike System's financial activity, assets and liabilities using the accrual basis of accounting much like a private business entity. As such, this annual report consists of a series of financial statements, along with explanatory notes to the financial statements. The Statement of Net Assets on page 16 and the Statement of Revenues, Expenses and Changes in Net Assets on page 17, report the Turnpike's net assets and changes in them. Lastly, the Statement of Cash Flows on page 18 outlines the cash inflows and outflows related to the activity of the Turnpike System.

<u>Turnpike System's Net Assets</u>		(Amounts in thousands)	
		2007	2006
<u>Assets:</u>			
Current Assets		\$ 80,091	\$ 64,791
Non-current Assets		3,332	13,360
Capital Assets		555,652	551,211
Total Assets		<u>639,075</u>	<u>629,362</u>
<u>Liabilities:</u>			
Current Liabilities		29,011	30,232
Non-current Liabilities		262,170	278,930
Total Liabilities		<u>291,181</u>	<u>309,162</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt		285,523	263,337
Restricted for Debt Repayments		40,376	42,597
Unrestricted Net Assets		21,995	14,266
Total Net Assets		<u>\$ 347,894</u>	<u>\$ 320,200</u>

New Hampshire Turnpike System Management's Discussion and Analysis

(Unaudited)

The Turnpike System's total net assets at June 30, 2007 were approximately \$347.9 million, an 8.7% increase from June 30, 2006. Total assets increased 1.5% to \$639.1 million. Total liabilities decreased 5.8% to \$291.2 million. The increase in net assets is due mainly to the income before grant contributions of \$17.2 million, up \$9.4 million over the prior year. This increase was the result of a combination of a \$5 million increase in operating revenue coupled with declines in both operating (\$1.2 million) and non-operating (\$3.3 million) expenses. Elimination of the token and commercial charge programs led to the revenue increase while operating expenses were down largely because of the stabilization of the E-ZPass program expenditures, as previously discussed. The drop in non-operating expenses can be attributed mainly to the \$2.1 million fall in interest on bonds and the \$0.8 million rise in investment income. Also contributing to the increase in net assets was the \$10.4 million of grant contributions for federal aid on turnpike projects, specifically \$9.5 million for Manchester's Granite Street projects and \$0.9 million for Newington-Dover's Little Bay Bridges projects.

Liabilities

The Turnpike System total liabilities decreased by \$18.0 million in fiscal year 2007, which can be primarily attributed to retirement of long-term bonds payable.

Current liabilities consist primarily of accrued operating expenses, deferred revenue, and the current portion of bonds payable. The decrease in current liabilities of \$1.2 million in fiscal year 2007 is largely due to the change in accounts payable. The decrease in accounts payable was the result of more timely processing of payment vouchers, especially at year-end. The table below shows current liabilities as of June 30, 2007 and June 30, 2006:

	(Amounts in thousands)	
	<u>2007</u>	<u>2006</u>
Accounts Payable	\$ 3,662	\$ 4,630
Accrued Compensated Absences and Workers Compensation	708	648
Bonds Payable	13,964	14,479
Deferred Revenue	5,961	5,568
Other Current Liabilities	4,716	4,907
Total Current Liabilities	<u>\$ 29,011</u>	<u>\$ 30,232</u>

Revenues and Expenses

Operating Revenues

The Turnpike System's primary revenues are generated from toll collections and interest income. The Central Turnpike generated gross revenue of \$36.5 million, the Blue Star Turnpike \$34.7 million and the Spaulding Turnpike finished the year with \$11.0 million in gross revenue. \$2.3 million was also generated in other income, including toll violation administrative fees, toll evasion fines, property damage, and miscellaneous revenue, for combined toll operating revenue of \$84.5 million for the year ended June 30, 2007.

New Hampshire Turnpike System Management's Discussion and Analysis

(Unaudited)

Turnpike System Revenue and Traffic Trends

For the year ended June 30, 2007, toll revenue was comprised of the components described in the previous paragraph. In fiscal year 2006, the implementation of the E-ZPass electronic toll collection program included discounts on accounts opened in New Hampshire of 30% for passenger vehicles and 10% for commercial vehicles. This discount program eventually replaced the higher discounts offered by tokens (50% for passenger vehicles) and the charge account program (30% for commercial vehicles); however, tokens and the charge account program were in effect for some of fiscal year 2006. During fiscal year 2007, the only discount program in place was that offered under the E-ZPass program.

During fiscal year 2007, total toll transactions rose 0.8% over the previous year, to approximately 115.4 million. Passenger vehicles traveling the Turnpike System comprised 94% of the total traffic, with commercial vehicles at 6%. During the twelve months ended June 30, 2007, approximately 54% of total traffic used the E-ZPass program.

The Department requested and was authorized by the Governor and Council, to increase the rate of tolls effective October 22, 2007 in Hooksett, Bedford, Dover, Rochester Mainlines, and Hampton Side by \$0.25 for single rear tire vehicles (classes 1-4) and by \$0.50 for dual rear tire vehicles (classes 5-12). Further, the rate was also increased at the Hampton Mainline Toll by \$0.50 for single rear tire vehicles (classes 1-4) and by \$1.00 for dual rear tire vehicles (classes 5-12). This additional revenue will be used to fund Turnpike expansion programs.

Operating Expenses

Operating expenses for the year decreased approximately \$1.2 million or 2.0%. This decrease is due largely to E-ZPass processing fees and transponder expenses leveling off after the initial transition period.

Turnpike System's Changes in Net Assets

(Amounts in thousands)

	<u>2007</u>	<u>2006</u>
Operating Revenue	\$ 85,718	\$ 80,757
Operating Expenses	<u>58,429</u>	<u>59,639</u>
Operating Income	27,289	21,118
Non-Operating (Expenses)	<u>(10,017)</u>	<u>(13,303)</u>
Net Income Before Grant Contributions	17,272	7,815
Grant Contributions	<u>10,422</u>	<u>16,757</u>
Change in Net Assets	27,694	24,572
Net Assets – July 1	<u>320,200</u>	<u>295,628</u>
Net Assets - June 30	<u>\$ 347,894</u>	<u>\$ 320,200</u>

Maintenance of the Turnpike System

The Turnpike System (other than the Spaulding Turnpike extension, for which the Turnpike System is billed for maintenance performed by District 6, Bureau of Highway Maintenance) is maintained and repaired by the Bureau of Turnpikes of the State Department of Transportation. All maintenance and repair costs have been

New Hampshire Turnpike System Management's Discussion and Analysis

(Unaudited)

funded from Turnpike operating revenues since the beginning of the Turnpike System in 1950. The Turnpike System funds Renewal and Replacement Costs from the General Reserve Account. In addition, the State's policy is to set aside a cumulative total of \$2,000,000 of its General Reserve Account for unanticipated Renewal and Replacement Costs.

In the past, the Bureau of Turnpikes resurfacing goal is on average 10% of the total lane miles of the Turnpike System each year. During fiscal year 2007, 47 lane miles of the Turnpike System were resurfaced as part of the Renewal and Replacement program, representing only 7% of the total. The recent jump in the cost of asphalt has stretched the feasible resurfacing cycle from 10 years to closer to every 12-14 years, still within a range that the Bureau has deemed to be sufficient to adequately maintain the Turnpike System.

During fiscal year 2007, the independent engineer the HNTB Corporation (HNTB) conducted an infrastructure study of the Turnpike System to assist in planning for future Renewal and Replacement needs. In the report, HNTB concluded that the Turnpike System has been adequately maintained through October 2006, the date of its report. However, due to the delayed Renewal and Replacement spending and to the increased costs of materials, the level of expenditure going forward should be greater than that which had been previously planned.

For fiscal year 2007, the Turnpike System expenditures for Renewal and Replacement were \$8.6 million. For the fiscal years 2008-2010, taking into account the analysis conducted by HNTB, the anticipated budget is roughly \$8.3 million per year for Renewal and Replacement, with major expenditures for resurfacing, bridge rehabilitation, bridge painting, major sign rehabilitation, and toll plaza canopy repairs.

Non-Operating (Expenses)

Net non-operating expenses decreased by 25%. The net decrease in fiscal year 2007 is due to the increases of \$0.9 million in investment income and \$0.2 million in miscellaneous income, coupled with the decrease in interest on bonds of \$2.1 million.

Future GASB Implementation

The Governmental Accounting Standards Board (GASB) issued statement Number 43—*Financial Reporting for Post employment Benefit Plans Other Than Pension Plans*, and Statement Number 45—*Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*. Under these statements, all state and local government entities that provide other post employment benefits (OPEB) are required to report the cost of these benefits on their financial statements. These statements include post employment benefits of health, prescription drug, dental, vision and life insurance coverage for retirees; long-term care coverage, life insurance and death benefits that are not offered as part of a pension plan; and long-term disability insurance for employees.

These benefits referred to as OPEB, are financed by the State on a pay-as-you-go basis. The new standard introduces an accrual basis accounting requirement; thereby recognizing the employer's cost of post employment benefits over an employee's career. Further, the State must also recognize a liability equal to the actuarial cost of Other Post Employment Benefits. The State calculates OPEB by assuming a discount rate based on a pre-funded or pay as you go basis to fund these costs. The discount rates used are 8.5% and 4.5%, respectively, for pre-funded and pay-as-you-go basis of accounting. Under a pay as you go accounting, a lower interest rate discount to the liabilities projects a larger liability and expense in the current year, while a pre-funded discount approach will project a smaller liability and expense in the current year. The rate of

New Hampshire Turnpike System Management's Discussion and Analysis

(Unaudited)

return on the investments will ultimately determine whether benefits provided will come from investment earnings or contributions by the State.

Based upon current levels of post employment benefits, the State estimates the Turnpike System's future costs to be within a range of: \$2.6 million (pre-funded accounting) and \$4.1 million (pay as you go accounting).

Budget and Appropriation Process

The Legislature meets annually, and adopts its budget every other year on a biennial basis. Prior to the beginning of each biennium, all departments of the State, including the Department of Transportation, are required by law to transmit to the Commissioner of the Department of Administrative Services requests for capital expenditures, as well as estimates of their administration, operation and maintenance expenditure requirements for each fiscal year of the ensuing biennium.

As a bureau of the State of New Hampshire, Department of Transportation, the Turnpike System is included in the State of New Hampshire's biennial operating budget. The Turnpike System's official budget, as adopted by the Legislature, is prepared principally on a modified cash basis. The Turnpike's budget consists primarily of salaries and benefits, maintenance, expenses relative to snow removal, and debt service.

The Commissioner of the Department of Administrative Services, who submits the summary to the Governor, summarizes capital expenditure requests. After holding public hearings and requesting further evaluation of selected projects by the Commissioner of the Department of Transportation, the Governor prepares a capital budget for submission to the Legislature.

In conjunction with the receipt of operating budget estimates, the Commissioner of the Department of Administrative Services prepares an estimate of the total income of the State for each fiscal year of the ensuing biennium. Based upon the expenditure estimates the Commissioner has received and the revenue projections the Commissioner has made, the Commissioner prepares a tentative budget for the ensuing biennium, which is transmitted to the Governor. The Governor then holds public hearings on the tentative operating budget and prepares the final budget proposal, setting forth the Governor's financial program for the following two fiscal years.

Once the budget becomes law, it represents the authorization for spending levels of each State department during the next two fiscal years.

Contacting the Turnpike's Financial Management

This financial report is designed to provide New Hampshire citizens, the Legislature and the Executive Branch of government, as well as other interested parties, a general overview of the Turnpike System's financial activity for fiscal year 2007 and to demonstrate the Turnpike System's accountability for the money it received from toll collections. If there are questions about this report or the need for additional information, contact the New Hampshire Department of Transportation, Bureau of Finance and Contracts, John O. Morton Building, Room 170, 7 Hazen Drive, Concord, NH 03302-0483.

**STATE OF NEW HAMPSHIRE – DEPARTMENT OF TRANSPORTATION
TURNPIKE SYSTEM
STATEMENT OF NET ASSETS
JUNE 30, 2007
(Expressed in Thousands)**

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 34,940
Cash and Cash Equivalents - Restricted	40,376
Receivables (Net of Allowances for Un-collectibles)	3,048
Inventories	1,727
Total Current Assets	<u>80,091</u>

Non-current Assets:

Capital Assets:	
Land and Land Improvements	110,412
Buildings	4,828
Equipment	33,468
Construction in Progress	58,984
Infrastructure	558,936
Less: Allowance for Depreciation	<u>(210,976)</u>
Net Capital Assets	<u>555,652</u>
Bond Issue Costs	<u>3,332</u>
Total Non-current Assets	<u>558,984</u>
Total Assets	<u>639,075</u>

LIABILITIES

Current Liabilities:

Accounts Payable	3,662
Accrued Payroll	694
Deferred Revenue	5,961
General Obligation Bonds Payable - Current	1,509
Revenue Bonds Payable - Restricted	12,455
Accrued Interest Payable - Restricted	3,954
Claims and Compensated Absences Payable	708
Other Liabilities	<u>68</u>
Total Current Liabilities	<u>29,011</u>

Non-current Liabilities:

General Obligation Bonds Payable	2,868
Revenue Bonds Payable (Net of Unamortized Discount)	256,629
Claims and Compensated Absences Payable	<u>2,673</u>
Total Non-current Liabilities	<u>262,170</u>
Total Liabilities	<u>291,181</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	285,523
Restricted for Debt Repayments	40,376
Unrestricted Net Assets	<u>21,995</u>
Total Net Assets	<u>\$ 347,894</u>

The notes to the financial statements are an integral part of this statement.

**STATE OF NEW HAMPSHIRE - DEPARTMENT OF TRANSPORTATION
TURNPIKE SYSTEM
STATEMENT OF REVENUES, EXPENSES, & CHANGES IN NET ASSETS
FOR FISCAL YEAR ENDED JUNE 30, 2007
(Expressed in Thousands)**

OPERATING REVENUES – PLEDGED

Toll Operating Revenue	\$ 84,513
Transponder Revenue	<u>1,205</u>
Toll Operating Revenue	85,718

OPERATING EXPENSES

Personnel Services	10,409
Payroll Benefits	4,947
Enforcement	5,016
Renewal & Replacement	8,552
Other Administration	2,823
Repairs	3,071
Indirect Costs	1,756
Heat, Light and Power	1,311
Bank Fees	1,421
Rentals	696
E-ZPass Processing Fees	3,758
Transponder Expense	950
Depreciation	<u>13,719</u>
Total Operating Expenses	<u>58,429</u>
Operating Income	<u>27,289</u>

NON-OPERATING REVENUES (EXPENSES)

Investment Income	3,283
Miscellaneous	407
Interest on Bonds	<u>(13,707)</u>
Total Non-operating Expenses	<u>(10,017)</u>
Income Before Grant Contributions	<u>17,272</u>
Grant Contributions	<u>10,422</u>
Change in Net Assets	27,694
Net Assets - July 1	<u>320,200</u>
Net Assets - June 30	<u><u>\$ 347,894</u></u>

The notes to the financial statements are an integral part of this statement

**STATE OF NEW HAMPSHIRE – DEPARTMENT OF TRANSPORTATION
TURNPIKE SYSTEM
STATEMENT OF CASH FLOWS
FOR FISCAL YEAR ENDED JUNE 30, 2007
(Expressed in Thousands)**

Cash Flows from Operating Activities:

Receipts from Customers	\$ 85,397
Payments to Employees	(14,770)
Payments to Suppliers	<u>(29,469)</u>
Net Cash Provided by Operating Activities	<u>41,158</u>

Cash Flows from Capital and Related Financing Activities:

Acquisition, Disposal, and Construction of Capital Assets	(18,454)
Grant Contributions	10,422
Interest Paid on Revenue and General Obligation Bonds	(13,882)
Principal Paid on Bonds	(17,995)
Proceeds from Refunding	41,860
Payments to Refunding Escrow Agent	<u>(41,646)</u>
Net Cash (Used) for Capital and Related Financing Activities	<u>(39,695)</u>

Cash Flows from Investing Activities:

Proceeds from Maturities of Investments	9,992
Interest and Other Income	<u>3,336</u>
Net Cash Provided by Investing Activities	<u>13,328</u>

Net Increase in Cash and Cash Equivalents	14,791
Cash and Cash Equivalents - July 1	<u>60,525</u>
Cash and Cash Equivalents – June 30	<u><u>\$ 75,316</u></u>

**Reconciliation of Operating Income to Net
Cash Provided by Operating Activities:**

Operating Income	\$ 27,289
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	13,719
Change in Operating Assets and Liabilities:	
Increase in Receivables	(714)
Decrease in Inventories	205
Increase in Accounts Payable and Other Accruals	266
Increase in Deferred Revenue	<u>393</u>
Net Cash Provided by Operating Activities	<u><u>\$ 41,158</u></u>

The notes to the financial statements are an integral part of this statement.

NEW HAMPSHIRE TURNPIKE SYSTEM

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2007

(1) Summary of Significant Accounting Policies

The accompanying financial statements of the Turnpike System have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

(a) *Financial Reporting Entity*

The New Hampshire Turnpike System (“the Turnpike System”) is a bureau within the Division of Operations of the State of New Hampshire Department of Transportation. The Turnpike System is reported as an enterprise fund of the State of New Hampshire (“the State”) and is included in the Comprehensive Annual Financial Report of the State. The Turnpike System itself has no component units included in its reporting entity. The Turnpike System constructs, maintains, and operates toll transaction facilities and issues revenue bonds, which are repaid from tolls and other revenues. Under the provisions of New Hampshire Revised Statutes Annotated (RSA) 237, as amended by Chapter 203, Laws of 1986, Chapter 306, Laws of 1998, and Chapter 262, Laws of 2004, the Legislature established a ten-year highway construction and reconstruction plan and authorized major expansion and improvement projects as part of a Capital Improvement Program. RSA’s 237 and 237-A authorized the issuance of \$586 million of revenue bonds to fund these projects.

(b) *Measurement Focus and Basis of Accounting*

The accounting policies of the Turnpike System conform to generally accepted accounting principles as applicable to government enterprise funds and, as such, the activities of the Turnpike System are reported using the economic resources measurement focus and accrual basis of accounting. With respect to these activities, the Turnpike System has adopted applicable GASB pronouncements. The Turnpike System has elected to apply all applicable GASB pronouncements, as well as Financial Accounting Standards Board (FASB) Statements and Interpretations and Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

(c) *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(d) *Restricted Assets*

The proceeds of the Turnpike System Revenue Bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Assets because their use is limited by a bond resolution.

NEW HAMPSHIRE TURNPIKE SYSTEM

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2007

(e) *Accounts Receivable*

Receivables primarily consist of amounts due from the Highway Fund and outstanding E-Z Pass violations. The accounts receivable balance as of June 30, 2007 is \$4.6 million less a \$1.6 million allowance for doubtful accounts, which represents an estimate of uncollectible toll violation fees.

(f) *Cash Equivalents*

For the purpose of the Statement of Cash Flows, cash equivalents represent short-term investments with maturity dates within three months of the date acquired.

(g) *Capital Assets*

Capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date donated. Depreciation is computed using the straight-line method over the estimated useful lives of the capital assets which are as follows: infrastructure – 50 years; buildings – 40 years; toll equipment – 10 years; and other equipment – 5 years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Capital assets purchased or constructed by other funding sources are recorded at cost. In accordance with FASB Statement No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*, interest is capitalized on capital assets acquired with tax-exempt debt.

(h) *Revenue Bond Discounts/Premiums and Issuance Costs*

Revenue bond discounts/premiums and issuance costs are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issue costs are reported as deferred costs.

(i) *Compensated Absences*

All full-time state employees in classified service earn annual and sick leave. At the end of each fiscal year, additional leave (bonus days) may be awarded based on the amount of sick leave taken during the year. Accrued compensatory time, earned for overtime worked, must be taken within one year. The State's compensated absences liability represents the total liability for the cumulative balance of employees' annual, bonus, compensatory, and sick leave based on years of service rendered along with the state's share of social security and retirement contributions. The current portion of the liability is calculated based on the characteristics of the type of leave and on a LIFO (last in first out) basis, which assumes employees use their most recent earned leave first. The accrued liability for annual leave does not exceed the maximum cumulative balance allowed which ranges from 32 to 50 days based on years of service. The accrual for sick leave is made to the extent that it is probable that the benefits will result in termination payments rather than be taken as absences due to illness.

(j) *Revenues and Expenses*

Revenues and expenses are classified as operating or non-operating. Operating revenues and expenses generally result from toll collections, the sale of transponders, administration,

(continued)

NEW HAMPSHIRE TURNPIKE SYSTEM

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2007

depreciation, and turnpike maintenance. Generally, all other revenues and expenses are reported as non-operating.

(k) E-ZPass Program

Upon enrolling in the E-ZPass program, participants establish pre-paid toll accounts. These pre-paid toll receipts are collected by Affiliated Computer Services (ACS) on behalf of the Turnpike System and recorded by the Turnpike System as deferred revenue until the customer completes a toll transaction. Once this occurs, revenue is recorded and the customer's account is charged. Vehicle transponders, which serve to identify the vehicles passing through the toll plazas, are purchased by the Turnpike System and shipped to customers by the contractor, ACS. The sale price customers are charged for transponders is approximately equal to the price the Turnpike System pays for them.

(l) Inventory

Inventories for materials and supplies were determined through a physical count and are valued at cost. Also, included in the inventory amount are E-ZPass transponders. They are received and stored at the E-ZPass Customer Service Center, run by a contractor, ACS, located in New Jersey who reports the transponders inventory at cost for June 30, 2007.

(2) Cash, Cash Equivalents, and Investments

(a) Cash and Cash Equivalents

Primary Government – The State pools cash and investments except for separate cash and investment accounts maintained in accordance with legal restrictions. The Turnpike System's share of the total pooled cash and investments and restricted assets is included on the balance sheet as "Cash and Cash Equivalents".

Deposits – The following statutory requirements and Treasury Department policies have been adopted to minimize risk associated with deposits:

RSA 6:7 establishes the policy the State Treasurer must adhere to when depositing public monies. Operating funds are invested per investment policies that further define appropriate investment choices and constraints as they apply to those investment types.

Custodial Credit Risk: The custodial risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered.

Custodial credit risk is managed in a variety of ways. Although State law does not require deposits to be collateralized, the Treasurer does utilize such arrangements where prudent and/or cost effective. All banks, where the State has deposits and/or active accounts, are monitored as to their financial health through the services of Veribanc, Inc., a bank rating firm. In addition, ongoing reviews with officials of depository institutions are used to allow for frequent monitoring of custodial credit risk.

The Governor and Executive Council must approve all depositories used by the State at least annually. All commercial paper must be from issuers having A1/P1 rating or better and an AA- or better long-term debt rating from one or more of the nationally recognized rating agencies. Certificates of deposits must be with state or federally chartered banking institutions with a

(continued)

NEW HAMPSHIRE TURNPIKE SYSTEM

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2007

branch in New Hampshire. The institution must have the highest rating as measured by Veribanc, Inc.

The State does not hold any assets for the Turnpike System that are denominated in foreign currencies. Therefore, foreign currency risk is essentially nonexistent.

As of June 30, 2007, the Turnpike System's bank balances were exposed to custodial credit risk as follows:

(Amounts in thousands)

	Collateralized & held In State's name	Un-collateralized
Certificates of Deposit	\$5,000	
Demand Deposits	\$51	
Repurchase Agreements	\$16,347	
Money Market	\$15,479	\$31,721
US Gov't Agency Securities	\$6,718	
Total	\$43,595	\$31,721

(b) Investments

The following statutory requirements and Treasury Department policies have been adopted to ensure reasonable rates of return on investments while minimizing risk factors.

Approved investments are defined in statute (RSA 6:8, 387:6-a, and 387:14). Additionally, investment guidelines exist for operating funds as well as trust and custodial funds. All investments are denominated in U.S. dollars. As of June 30, 2007, the Turnpike System investments have a maturity of less than 90 days and therefore are reported as cash and cash equivalents.

The table below reconciles the cash and cash equivalents in the financial statements to the footnote:

(Amounts in thousands)

Reconciliation Between Financial Statements and Footnote				
Per Statement of Net Assets	Unrestricted	Restricted		Total
	Cash and Cash	Cash and Cash		
	Equivalents	Equivalents	Investments	
	\$34,940	\$40,376	0	

Repurchase Agreements:

Repurchase agreements must be executed through a New Hampshire or Massachusetts bank with assets in excess of \$500 million and has either the strongest rating as measured by Veribanc, Inc. or has a long term debt rating of AA- or better as rated by Standard and Poor's and Fitch or Aa3

NEW HAMPSHIRE TURNPIKE SYSTEM

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2007

or better as rated by Moody's. Repurchase agreements may also be executed through any of the primary government security dealers as designated by the Federal Reserve.

(3) Restricted Assets

Restricted assets at fair value are segregated into the following accounts as of June 30:

(Amounts in thousands)	<u>2007</u>
Revenue Bond Interest Debt Service Account	\$ 2,203
Revenue Bond Principal Debt Service Account	6,718
Revenue Bond Debt Service Reserve Account	26,455
Revenue Bond Insurance Reserve Account	3,000
Revenue Bond General Reserve Account	<u>2,000</u>
Total Restricted Assets	<u>\$ 40,376</u>

The "Revenue Bond Interest Debt Service Account" and "Revenue Bond Principal Debt Service Account" are used to segregate resources accumulated for debt service payments on the given maturity dates (see note 7). The "Revenue Bond Debt Service Reserve Account" is used to report resources set aside to make up potential future deficiencies in the revenue bond interest debt service account and revenue bond principal debt service account. The "Revenue Bond Insurance Reserve Account" is used to report the amount that is available to insure against risks that would otherwise be covered by policies of insurance. The "Revenue Bond General Reserve Account" is used to report resources set aside to meet deficiencies in revenues, to fund asset renewals and replacements, to pay Turnpike System general obligation bonds, or for any other lawful purpose of the Turnpike System.

In addition to the above accounts, a "Revenue Bond Special Redemption Account" would be used to report any monies not otherwise required by the bond resolution to be deposited or applied, including excess proceeds after the completion of a project. A "Revenue Bond Rebate Account" also would be used to report any excess of interest earned on non-purpose investments (as defined in section 148 of the *Internal Revenue Code of 1986*, as amended).

NEW HAMPSHIRE TURNPIKE SYSTEM

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2007

(4) Capital Assets

Capital Asset activity for the year ended June 30, 2007, was as follows:

	(Amounts in thousands)			
	Beginning			Ending
	Balance	Increases	Decreases	Balance
Capital Assets not Being Depreciated:				
Land and Land Improvements	\$ 106,958	\$ 4,180	\$ (726)	\$110,412
Construction in Progress	71,414	13,502	(25,932)	58,984
Capital Assets not Being Depreciated:	<u>178,372</u>	<u>17,682</u>	<u>(26,658)</u>	<u>169,396</u>
Other Capital Assets:				
Equipment	31,268	4,313	(2,113)	33,468
Buildings and Building Improvements	4,828	0	0	4,828
Infrastructure	<u>536,114</u>	<u>22,822</u>	<u>0</u>	<u>558,936</u>
Subtotal Other Capital Assets	<u>572,210</u>	<u>27,135</u>	<u>(2,113)</u>	<u>597,232</u>
Total Capital Assets	<u>750,582</u>	<u>44,817</u>	<u>(28,771)</u>	<u>766,628</u>
Less Accumulated Depreciation for:				
Equipment	(17,719)	(2,557)	2,114	(18,162)
Buildings and Building Improvements	(2,675)	(72)	0	(2,747)
Infrastructure	<u>(178,977)</u>	<u>(11,090)</u>	<u>0</u>	<u>(190,067)</u>
Total Accumulated Depreciation	<u>(199,371)</u>	<u>(13,719)</u>	<u>2,114</u>	<u>(210,976)</u>
Capital Assets, Net	<u>\$ 551,211</u>	<u>\$ 31,098</u>	<u>\$ (26,657)</u>	<u>\$ 555,652</u>

At June 30, 2007, the Turnpike System had contractual commitments for various Turnpike System improvement projects of \$12.3 million.

In accordance with FASB Statement No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*, interest is capitalized on capital assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until proceeds are fully expended, with interest earned on invested proceeds over the same period. In fiscal year 2007, no interest cost was capitalized, as all bond funded projects had been completed in prior years.

(5) Long-Term Debt

(a) Bonds Authorized and Un-issued

Bonds authorized and un-issued amounted to \$191.1 million of revenue bonds at June 30, 2007. The Legislature has established a 10-year highway construction and reconstruction plan for the Turnpike System to be funded from Turnpike revenues. This legislation also authorized the Governor and Executive Council to issue up to \$586.0 million of bonds to support this plan. To date, the State has issued \$395.0 million of revenue bonds for this plan.

NEW HAMPSHIRE TURNPIKE SYSTEM

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2007

(b) *Changes in Long-Term Liabilities*

The following is a summary of the changes in the long-term liabilities for bonds, compensated absences, and uninsured claims during the fiscal year:

(Amounts in thousands)

<i>Turnpike System</i>	Beginning Balance	Increases	Decreases	Ending Balance	Current	Long- Term
General Obligation Bonds	\$ 7,067	-	(2,690)	\$4,377	\$1,509	\$2,868
Revenue Bonds	284,175	39,425	(54,516)	269,084	12,455	256,629
Claims & Compensated Absences Payable	2,815	1,440	(874)	3,381	708	2,673
Total	<u>\$ 294,057</u>	<u>40,865</u>	<u>(58,080)</u>	<u>\$276,842</u>	<u>\$14,672</u>	<u>\$262,170</u>

(c) *Refunding Revenue Bond Issue*

In November of fiscal year 2006, the State issued \$39.4 million in Turnpike System Refunding Revenue Bonds with a delayed delivery date of August of fiscal year 2007. These bonds were used to refund \$39.4 million of revenue refunding bonds. The refunding transaction that occurred in FY07 will result in a cash flow savings of \$4.1 million, with a net present value savings of \$3.2 million, over the next 10 years.

NEW HAMPSHIRE TURNPIKE SYSTEM

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2007

(d) Debt Maturity

With the exception of Turnpike System revenue bonds, all bonds issued by the State are general obligation bonds. These are backed by the full faith and credit of the State. Interest rates on these issues range from 2.0% to 7.2%. The annual maturities are as follows:

(Amounts in thousands)

Payable June 30,	General Obligation Principal	General Obligation Interest	Revenue Principal	Revenue Interest	Total Principal	Total Interest
2008	1,509	204	12,455	13,255	13,964	13,459
2009	1,474	123	13,270	12,711	14,744	12,834
2010	624	45	13,500	12,093	14,124	12,138
2011	584	15	14,710	11,426	15,294	11,441
2012	0	0	14,550	10,692	14,550	10,692
2013 – 2017	0	0	89,620	41,505	89,620	41,505
2018 – 2022	0	0	67,395	19,850	67,395	19,850
2023 – 2027	0	0	35,265	7,164	35,265	7,164
2028 – 2032	0	0	11,725	900	11,725	900
Subtotal	4,191	387	272,490	129,596	276,681	129,983
Un-amortized Premium	186	0	7,480	0	7,666	0
Un-amortized Loss on Refunding	0	0	(10,886)	0	(10,886)	0
Total	4,377	387	269,084	129,596	273,461	129,983

All revenue bonds are secured by a pledge of substantially all Turnpike System revenues and monies deposited into accounts created by the bond resolutions, subject only to the payment of operating expenses.

The bond resolutions require the Turnpike System to establish and collect tolls which are adequate at all times, when combined with other available sources of revenues, to provide for the proper operation and maintenance of the Turnpike System and for the timely payment of the principal and interest on all bonds, notes or other evidences of indebtedness.

The resolutions further require the Turnpike System to collect sufficient tolls so that in each fiscal year net revenues will be at least equal to the greater of: (a) 120% of current year debt service on the revenue bonds, or (b) 100% of current year debt service on the revenue bonds and on all general obligation or other bonds, notes or other indebtedness, and the additional amount, if any, required to be paid from the revenue bond general reserve account to satisfy the renewal and replacement requirement for the fiscal year.

NEW HAMPSHIRE TURNPIKE SYSTEM

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2007

The Turnpike System is required to review the adequacy of its tolls after each fiscal year. If this review indicates that the tolls and charges are, or will be, insufficient to meet the requirements described above, then the Independent Engineer of the Turnpike System will make a study and recommend a schedule of tolls and charges which will provide revenues sufficient to comply with the requirements described above.

While the toll rate schedule was deemed to be sufficient to meet operating needs and to fund a limited capital improvement program in the near term, the Turnpike System retained Vollmer Associates, LLP as an independent engineer to conduct a study of the toll rate schedule in order to confirm its sufficiency, as well as to assist in the planning of the capital spending program. The report was delivered in February 2007.

The resolutions require the Turnpike System to maintain certain accounts (see note 3). The Turnpike System deposits all revenues into a "Turnpike System revenue account," which are then applied first to the payment of operating expenses and then to fund accounts required by the resolutions.

The resolutions establish a renewal and replacement requirement with respect to each fiscal year. Renewal and replacement costs consist of rehabilitation, renewals, replacements, and extraordinary repairs necessary for the sound operation of the Turnpike System or to prevent loss of revenues, but not costs associated with new construction, additions or extensions.

The Turnpike System has complied with all of its material financial bond covenants as set forth in the resolutions.

In February 1995, the Turnpike System entered into a Debt Service Forward Supply Agreement ("the Agreement") with a financial institution. The agreement provides that the financial institution is responsible for investing all funds deposited on a monthly basis by the Turnpike System into the Revenue Bond Interest and Principal Debt Service Accounts. The financial institution made a one-time payment to the Turnpike System of \$4.7 million and is now responsible for ensuring that the required amount is available in the accounts to pay the interest and principal when due. However, the financial institution retains all interest earnings on those monies.

(6) Employee Benefit Plans

(a) Plan Description

The Turnpike System participates in the New Hampshire Retirement System (the Plan). The Plan is a cost-sharing, multiple-employer Public Employees Retirement System (the Plan) established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The Plan is a contributory defined-benefit plan providing service, disability, death, and vested retirement benefits to members and beneficiaries. The Plan covers substantially all full-time state employees, public school teachers and administrators, permanent firefighters, and police officers within the State of New Hampshire.

Full-time employees of political subdivisions, including counties, municipalities and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation.

NEW HAMPSHIRE TURNPIKE SYSTEM

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2007

Members at age 60 qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is 1/60 (1.67%) of average final compensation multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. At age 65, the yearly pension amount is recalculated at 1/66 (1.5%) of AFC multiplied by years of credited service. Members in service with ten or more years of creditable service who are between age 50 and 60 or members in service with at least 20 or more years of service, whose age and service years number 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

Members may qualify for vested deferred allowances, disability allowances, and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation and/or service.

A Special Account has been established by RSA 100-A:16, II(h) for additional benefits. The Special Account is credited with all of the earnings of the Special Account assets plus the earnings of the remaining assets of the plan in excess of the assumed rate of return plus 1/2 of 1%.

The New Hampshire Retirement System issues a publicly available financial report that may be obtained by writing to the New Hampshire Retirement System, 54 Regional Drive, Concord, New Hampshire 03301.

(b) Funding Policy

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. In fiscal year 2007, by statute, Group I members contributed 5% of gross earnings. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the Turnpike System's actuary using the open group aggregate funding method and are expressed as a percentage of gross payroll and paid by the employer. The Turnpike System's share represents 100% of the employer cost for all Turnpike employees. The Turnpike System's contributions to the plan for the years ended June 30, 2007, 2006, and 2005 were \$487 thousand, \$439 thousand, and \$371 thousand respectively, which equals the required contributions for each year.

(c) Health Care Insurance for Retired Employees

In addition to providing pension benefits, RSA 21-I:30 specifies that the state provide certain health care insurance benefits for retired employees within the limits of the funds appropriated at each legislative session. These benefits include group hospitalization, hospital medical care, surgical care and pharmaceuticals. Substantially, all of the state's employees who were hired on or before June 30, 2003 may become eligible for these benefits if they reach normal retirement age while working for the state and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires state Group 1 employees hired on or after July 1, 2003 to have 20 years of state service in order to qualify for retiree health insurance benefits. These and similar benefits for active employees are authorized by RSA 21-I:30 and provided through the Employee Benefit Risk Management Fund, which is the state's self-insurance fund implemented in October 2003 for active state employees and retirees. The state recognizes the cost of providing benefits by paying the actuarially determined insurance contributions into the fund. The Turnpike System contributions paid into the Employee Benefit Risk Management Fund totaled \$912 thousand for approximately 181 retirees and spouses for

NEW HAMPSHIRE TURNPIKE SYSTEM

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2007

fiscal year 2007. An additional source of funding for retiree benefits is from the New Hampshire Retirement System's medical premium subsidy program, which totaled approximately \$226 thousand for the Turnpike System retirees in fiscal year 2007.

(7) Grant Contributions

The Turnpike System recognized grant contributions totaling \$10.4 million representing capital assets purchased with federal funds transferred from the Highway Fund to the Turnpike Fund.

(8) Risk Management

The Turnpike System is exposed to various risks of loss, related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The State primarily retains the risk for losses, except where the provisions of law allow for the purchase of commercial insurance or where commercial insurance has been proven beneficial for the general public. Settled claims, under the insurance program, have not exceeded insurance coverage in any of the last three fiscal years. There have not been any significant changes in insurance coverage in any of the last three years.

During fiscal year 2004, the State established an Employee Benefit Risk Management Fund, an internal service fund, to account its uninsured risks of loss related to employee and retiree health benefits. Under this program, the Fund provides coverage for up to a maximum of \$0.5 million for each employee per year. The State has purchased commercial insurance for claims in excess of coverage provided, as well as, aggregate stop loss liability coverage set at 125% of the State's total expected claims per contract year.

Claim liabilities not covered by commercial insurance are recorded when it is probable that a loss occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported. The balance of claims liabilities is determined by an analysis of past, current, and future estimated loss experience. Because actual claims liabilities depend on such factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability may not result in an exact amount. Claims liabilities are evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

The following table presents the changes in claim liabilities during the fiscal years ending June 30, 2006 and 2007:

	(amounts in thousands)	
	2007	2006
Beginning Balance	\$ 2,092	\$ 2,354
Increases	859	179
Decreases	<u>(357)</u>	<u>(441)</u>
Ending Balance	<u>\$ 2,594</u>	<u>\$ 2,092</u>
Current	\$ 504	\$ 450
Long-Term	\$ 2,090	\$ 1,642

NEW HAMPSHIRE TURNPIKE SYSTEM

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2007

9) Subsequent Events

The Department requested and was authorized by Governor and Council, approval to increase the rate of tolls effective on October 22, 2007 in Hooksett, Bedford, Dover, Rochester Mainlines, and Hampton Side by \$0.25 for single rear tire vehicles (classes 1-4) and by \$0.50 for dual rear tire vehicles (classes 5-12). Further, the rate of tolls was also increased \$.50 at the Hampton Mainline Toll for single rear tire vehicles (Classes 1-4) and by \$1.00 for dual rear tire vehicles (classes 5-12). The Department estimates implementation of these toll rate increases will generate approximately \$24 million annually. This additional revenue will be used to fund Turnpike expansion programs.

(10) Commitments

(a) *E-ZPass Customer Service Contract*

Upon inception of the E-ZPass program, the Turnpike System entered into a 3-year contract, with Affiliated Computer Services (ACS) of Newark, NJ, to process E-ZPass transactions, effective September 24, 2004. The contract with ACS was renewed for 3 additional years on October 2, 2007. This 3-year contract, which also includes options to extend, is not to exceed \$14.2 million. Services include:

- Opening and closing of accounts
- Maintaining the account information database
- Distribution of transponders and maintenance of transponder inventory
- Dispute resolution
- Receiving and posting prepaid revenue to accounts
- Debiting accounts based upon toll revenue charged to account holders
- Processing toll lane violations, including administrative violations
- Marketing

(b) *Capital Improvement Program*

The ten-year capital improvement program, adopted by the Legislature in 1986, includes specific components relating to the Turnpike System. This program is intended to improve the safety of the Turnpike System and increase its capacity. It is updated every two years to address changing priorities.

Some of the major projects that could be part of the long-term Turnpike System capital improvement program and if included, will be financed with Turnpike System funds, anticipated bond proceeds, and federal funding include:

- Engineering, right-of-way acquisition and construction of Exits 11 through 16 on the Spaulding Turnpike in Rochester (immediate emphasis on the replacement of bridges at exits 11 and 12, with a longer term goal of two additional lanes of travel added from Exits 12 to 16) [\$158.2 million]
- Engineering and construction of an F.E. Everett Turnpike bridge over the Souhegan River in Merrimack [\$11.3 million]
- Engineering, right-of-way acquisition and construction of US Rte. 3 bridge over the F.E. Everett Turnpike in Bedford [\$13.3 million]

NEW HAMPSHIRE TURNPIKE SYSTEM

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2007

- Engineering and construction of the bridge on the Blue Star Turnpike carrying I-95 over the Taylor River in North Hampton and Hampton [\$10.4 million]
- Continued construction, specifically on bridges, of the F.E. Everett Turnpike through the Millyard area of Manchester [\$38.6 million]
- Completion of the construction on Exit 5, the Granite Street interchange in Manchester [\$2.0 million]
- Engineering, right-of-way acquisition and construction of the Turnpike associated with NH16/US 4 widening including Little Bay Bridges in Newington and Dover [\$173.7 million]
- Engineering and construction of an F.E. Everett Turnpike bridge over I-89 in Bow [\$11.3 million]

Depending on the scheduling of projects and availability of funding (e.g. toll revenues, bond proceeds), the Turnpike System capital improvement program expenditures during the ten-year plan period of 2009 – 2018 are expected to be in the range of between \$300 – \$450 million.

(c) ***Maintenance***

During fiscal year 2007, the independent engineer the HNTB Corporation (HNTB) conducted an infrastructure study of the Turnpike System to assist in planning for future Renewal and Replacement needs. In the report, HNTB concluded that the Turnpike System has been adequately maintained through October 2006, the date of its report. However, due to the delayed Renewal and Replacement spending and to the increased costs of materials, the level of expenditure going forward should be greater than that which had been previously planned.

For fiscal year 2007, the Turnpike System expenditures for Renewal and Replacement were \$8.6 million. For the fiscal years 2008-2010, taking into account the analysis conducted by the independent engineer HNTB, the anticipated budget is roughly \$8.3 million per year for Renewal and Replacement, with major expenditures for resurfacing, bridge rehabilitation, bridge painting, major sign rehabilitation, and toll plaza canopy repairs.

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OTHER INFORMATION SECTION

This section includes other relevant financial and operational information.

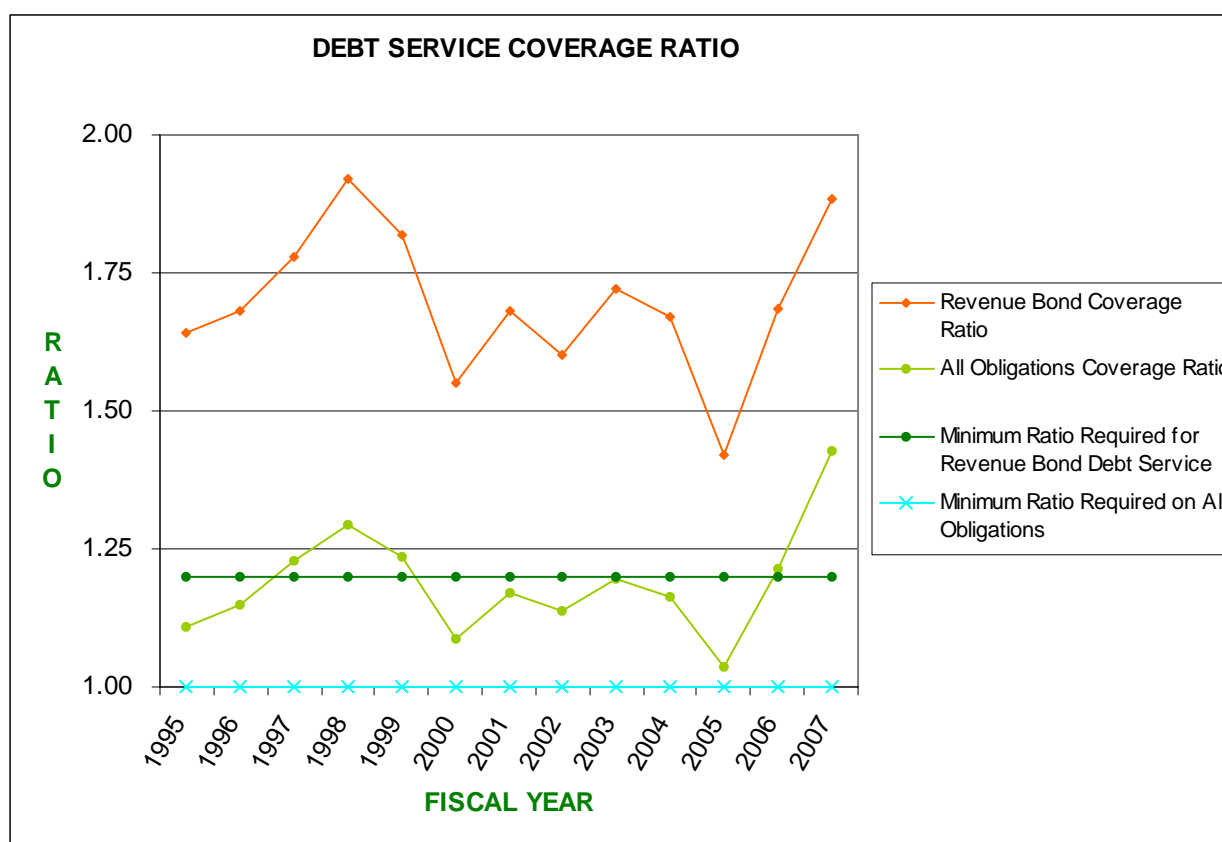
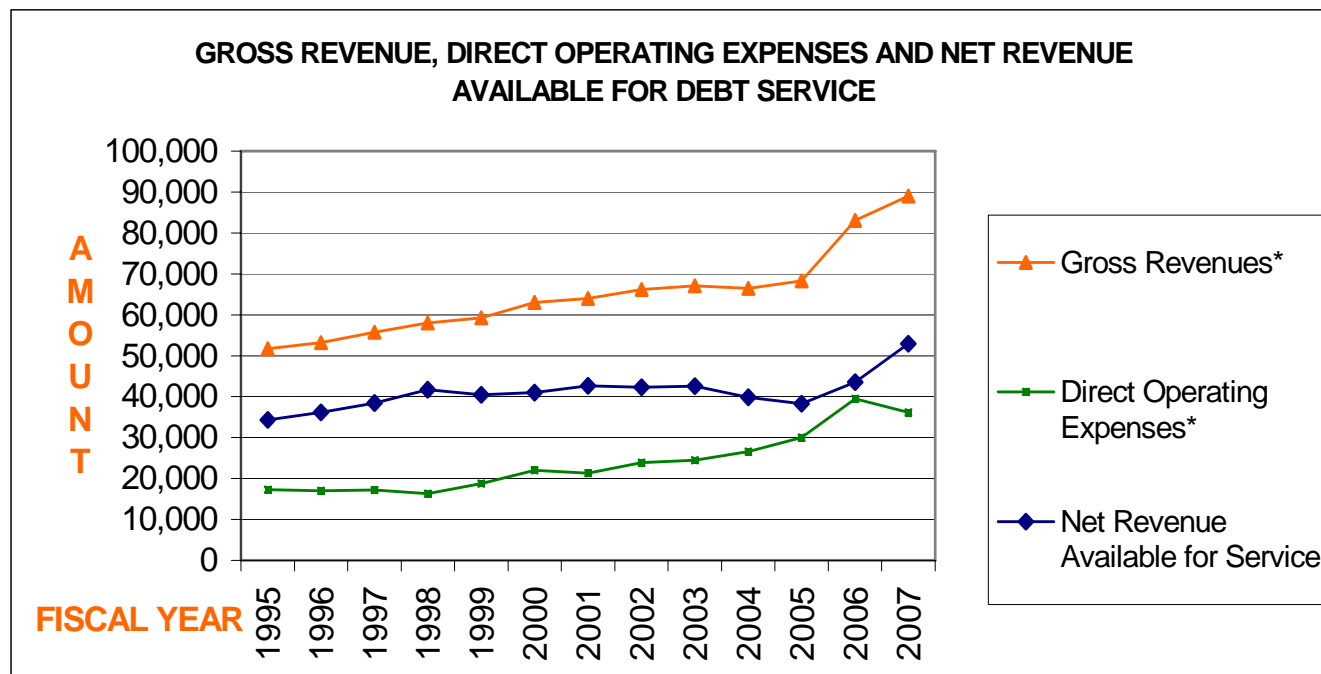
SCHEDULE OF REVENUE BOND COVERAGE RATIOS
Tumpike System Revenue Bonds for the Fiscal Years 1995 - 2007

(Amounts in thousands)

Fiscal Year	Gross Revenues*	Direct Operating Expenses*	Net Revenue Available for Service	Revenue Bond Debt Service Requirements	Revenue Bond Coverage Ratio	Minimum Ratio required for Revenue Bond Debt Service	G.O. Bond Debt Service Requirements	Renewal & Replacement	Total	All Obligations Coverage Ratio	Minimum Ratio required on All Obligations
2007	89,054	36,158	52,896	28,078	1.88	1.20	2,985	6,047	37,110	1.43	1.00
2006	83,054	41,784	41,270	25,831	1.60	1.20	4,219	5,871	35,921	1.15	1.00
2005	68,318	30,041	38,277	27,003	1.42	1.20	4,246	5,700	36,949	1.04	1.00
2004	66,463	26,568	39,895	23,865	1.67	1.20	4,842	5,600	34,307	1.16	1.00
2003	67,086	24,505	42,581	24,749	1.72	1.20	5,183	5,700	35,632	1.20	1.00
2002	66,218	23,877	42,341	26,452	1.60	1.20	5,415	5,365	37,232	1.14	1.00
2001	63,981	21,352	42,629	25,352	1.68	1.20	5,696	5,431	36,479	1.17	1.00
2000	63,034	22,064	40,970	26,452	1.55	1.20	5,973	5,308	37,733	1.09	1.00
1999	59,257	18,794	40,463	22,286	1.82	1.20	6,304	4,119	32,709	1.24	1.00
1998	58,033	16,352	41,681	21,678	1.92	1.20	6,519	3,990	32,187	1.29	1.00
1997	55,714	17,231	38,483	21,597	1.78	1.20	6,747	3,000	31,344	1.23	1.00
1996	53,231	17,024	36,207	21,595	1.68	1.20	6,975	3,000	31,570	1.15	1.00
1995	51,670	17,336	34,334	20,878	1.64	1.20	7,232	2,810	30,920	1.11	1.00

* As defined in Tumpike System Bond Resolutions

** 2006 and 2007 calculation of Direct Operating Expenses subtracts out the entire amount of current year depreciation expense (Tumpikes, Federal, & Highway match portions). Prior to 2006 and 2007, calculations still reflect the historical practice of subtracting the non-Federal depreciation only. Also, starting in 2006 and going forward, the budgeted Renewal and Replacement amount is used in calculating the all obligation coverage ratio. In the years prior to 2006, the actual Renewal and Replacement expenditures were used in the calculation. For comparison purposes, those ratios are recalculated here using the budgeted amounts.



ANNUAL TRAFFIC AND TOLL REVENUE TRENDS
New Hampshire Turnpike System
For the Year Ending June 30

The table below shows annual toll transaction and revenue trends for the Turnpike System during the period beginning with fiscal year 2007 and ending with fiscal year 1997.

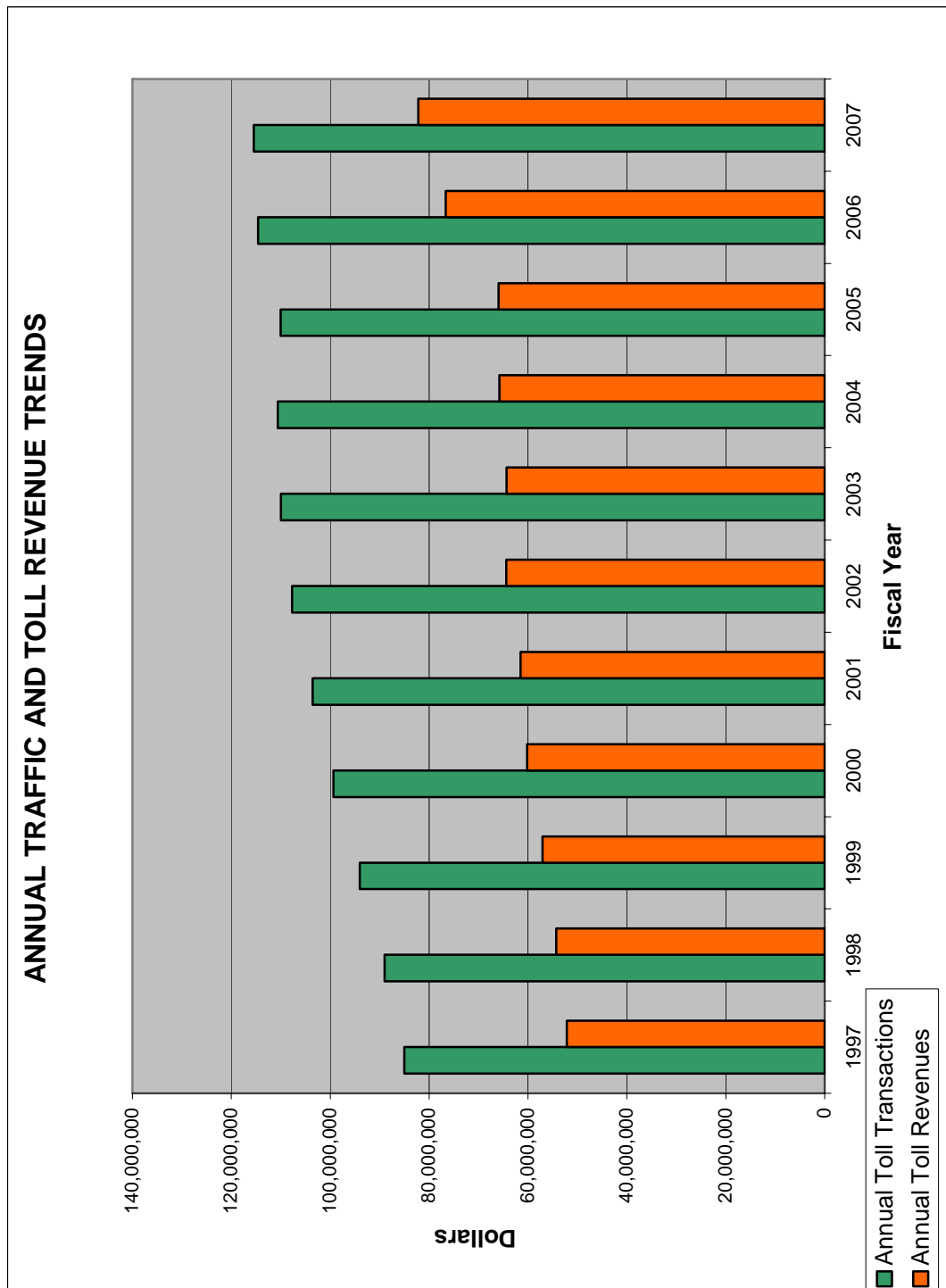
Fiscal Year	Annual Toll Transactions	Percent Change from Prior Year	Annual Toll Revenues*	Percent Change from Prior Year
2007 ⁺	115,457,650	0.8%	\$82,175,322	7.2%
2006 ⁺	114,562,787	4.1%	\$76,633,131	16.2%
2005 #	110,040,272	(0.5)%	\$65,956,309	0.3%
2004 #	110,573,506	0.5%	\$65,780,607	2.2%
2003	109,978,691	2.1%	\$64,367,301	0.0%
2002	107,729,932	4.0%	\$64,371,208	4.6%
2001	103,583,561	4.2%	\$61,536,675	2.3%
2000	99,363,028	5.7%	\$60,166,815	5.4%
1999	94,017,638	5.7%	\$57,080,882	5.1%
1998	88,987,246	4.7%	\$54,298,452	4.1%
1997	85,020,788	4.4%	\$52,160,088	5.7%

* Excludes charge account interest and miscellaneous income.


Hampton toll plaza: One-way tolls September-October 2003 and July-October 2004.

⁺ GAAP Toll Revenue amount used starting in FY07 and FY06. Cash basis revenue was used in prior years.


ANNUAL TRAFFIC AND TOLL REVENUE TRENDS
New Hampshire Turnpike System
For the year ended June 30, 2007



**STATE OF NEW HAMPSHIRE DEPARTMENT OF TRANSPORTATION
TURNPIKE SYSTEM TOLL RATE SCHEDULE
EFFECTIVE JUNE 30, 2007**

		2 axles - single rear tires		3 axles - single rear tires		4 axles - single rear tires		5 axles - single rear tires		2 axles - dual rear tires		3 axles - dual rear tires		4 axles - dual rear tires		5 axles - dual rear tires		6 axles - dual rear tires		7 axles - dual rear tires		8 axles - dual rear tires		9 axles - dual rear tires	
		1	2	3	4	5	6	7	8	9	10	11	12												
Plaza	Fare Type/Class																								
Hooksett Main	Cash Fare	0.75	\$ 1.00	\$ 1.25	\$ 1.50	\$ 1.50	\$ 2.00	\$ 2.50	\$ 3.00	\$ 3.50	\$ 4.00	\$ 4.50	\$ 5.00												
	E-ZPass Fare	\$0.53	\$0.70	\$0.88	\$1.05	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05	\$4.50												
Hooksett Ramp	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.50	2.00	2.50	3.00	3.50	4.00	4.50												
	E-ZPass Fare	\$0.35	\$0.53	\$0.70	\$0.88	\$0.90	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05												
Bedford Main	Cash Fare	0.75	1.00	1.25	1.50	1.50	2.00	2.50	3.00	3.50	4.00	4.50	5.00												
	E-ZPass Fare	\$0.53	\$0.70	\$0.88	\$1.05	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05	\$4.50												
Bedford Road	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.50	2.00	2.50	3.00	3.50	4.00	4.50												
	E-ZPass Fare	\$0.35	\$0.53	\$0.70	\$0.88	\$0.90	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05												
Exit 11	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.50	2.00	2.50	3.00	3.50	4.00	4.50												
	E-ZPass Fare	\$0.35	\$0.53	\$0.70	\$0.88	\$0.90	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05												
Merrimack Industrial	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.50	2.00	2.50	3.00	3.50	4.00	4.50												
	E-ZPass Fare	\$0.35	\$0.53	\$0.70	\$0.88	\$0.90	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05												
Hampton Main	Cash Fare	1.00	1.25	1.50	1.75	2.00	2.50	3.00	3.50	4.00	4.50	5.00	5.50												
	E-ZPass Fare	\$0.70	\$0.88	\$1.05	\$1.23	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05	\$4.50	\$4.95												
Hampton Side	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.50	2.00	2.50	3.00	3.50	4.00	4.50												
	E-ZPass Fare	\$0.35	\$0.53	\$0.70	\$0.88	\$0.90	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05												
Dover Toll	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.50	2.00	2.50	3.00	3.50	4.00	4.50												
	E-ZPass Fare	\$0.35	\$0.53	\$0.70	\$0.88	\$0.90	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05												
Rochester Toll	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.50	2.00	2.50	3.00	3.50	4.00	4.50												
	E-ZPass Fare	\$0.35	\$0.53	\$0.70	\$0.88	\$0.90	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05												

**STATE OF NEW HAMPSHIRE DEPARTMENT OF TRANSPORTATION
TURNPIKE SYSTEM TOLL RATE SCHEDULE
EFFECTIVE OCTOBER 22, 2007**

	Fare		2 axles - single rear tires	3 axles - single rear tires	4 axles - single rear tires	5 axles - single rear tires	2 axles - dual rear tires	3 axles - dual rear tires	4 axles - dual rear tires	5 axles - dual rear tires	6 axles - dual rear tires	7 axles - dual rear tires	8 axles - dual rear tires	9 axles - dual rear tires
	Plaza	Type/Class	1	2	3	4	5	6	7	8	9	10	11	12
Hooksett Main	Hooksett	Cash Fare	1.00	\$ 1.25	\$ 1.50	\$ 1.75	\$ 2.00	\$ 2.50	\$ 3.00	\$ 3.50	\$ 4.00	\$ 4.50	\$ 5.00	\$ 5.50
		E-ZPass Fare	\$0.70	\$0.88	\$1.05	\$1.23	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05	\$4.50	\$4.95
	Hooksett	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.50	2.00	2.50	3.00	3.50	4.00	4.50
	Ramp	E-ZPass Fare	\$0.35	\$0.53	\$0.70	\$0.88	\$0.90	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05
Bedford Main	Bedford	Cash Fare	1.00	1.25	1.50	1.75	2.00	2.50	3.00	3.50	4.00	4.50	5.00	5.50
		E-ZPass Fare	\$0.70	\$0.88	\$1.05	\$1.23	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05	\$4.50	\$4.95
	Bedford	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.50	2.00	2.50	3.00	3.50	4.00	4.50
	Road	E-ZPass Fare	\$0.35	\$0.53	\$0.70	\$0.88	\$0.90	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05
Exit 11	Exit 11	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.50	2.00	2.50	3.00	3.50	4.00	4.50
		E-ZPass Fare	\$0.35	\$0.53	\$0.70	\$0.88	\$0.90	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05
	Merrimack	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.50	2.00	2.50	3.00	3.50	4.00	4.50
	Industrial	E-ZPass Fare	\$0.35	\$0.53	\$0.70	\$0.88	\$0.90	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05
Hampton Main	Hampton	Cash Fare	1.50	1.75	2.00	2.25	3.00	3.50	4.00	4.50	5.00	5.50	6.00	6.50
		E-ZPass Fare	\$1.05	\$1.23	\$1.40	\$1.58	\$2.70	\$3.15	\$3.60	\$4.05	\$4.50	\$4.95	\$5.40	\$5.85
	Hampton	Cash Fare	0.75	1.00	1.25	1.50	1.50	2.00	2.50	3.00	3.50	4.00	4.50	5.00
	Side	E-ZPass Fare	\$0.53	\$0.70	\$0.88	\$1.05	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05	\$4.50
Dover Toll	Dover	Cash Fare	0.75	1.00	1.25	1.50	1.50	2.00	2.50	3.00	3.50	4.00	4.50	5.00
		E-ZPass Fare	\$0.53	\$0.70	\$0.88	\$1.05	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05	\$4.50
	Rochester	Cash Fare	0.75	1.00	1.25	1.50	1.50	2.00	2.50	3.00	3.50	4.00	4.50	5.00
	Toll	E-ZPass Fare	\$0.53	\$0.70	\$0.88	\$1.05	\$1.35	\$1.80	\$2.25	\$2.70	\$3.15	\$3.60	\$4.05	\$4.50

Back cover photo: General Sullivan Toll Bridge (circa 1934). Replaced by the Little Bay Bridges. The General Sullivan Bridge remains open to foot traffic and recreational use.

